THE ROLE OF SUCCESS AND FAILURE EXPERIENCE IN FORECAST ACCURACY – THE VENTURE CAPITAL CASE (SUMMARY)

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Principal Topic:
Accurate forecasts often result in above average returns and contribute to a long-term success of organizations (Durand, 2003; Makadok & Walker, 2000). Can organizations improve the accuracy of forecasts as they gain experience? Organizational learning theory views experience as a critical antecedent of organizational knowledge and capabilities, yet, such experience does not shield individuals from cognitive biases and making errors when predicting the future (Andreassen & Kraus, 1990; Harvey, 1988). It, therefore, remains unclear if the organizational experience will inform their cognitive forecasts in any significant way. In this study, we take several steps in addressing this oversight and examine the influence of organizations’ success and failure experiences on the accuracy of forecasts. We also examine the moderating effect of the size of organizations on learning from experience.

Method:
We develop and test our theory in the context of venture capital firms’ (VCFs) predictions of the exit outcomes (IPO, trade sale, etc.) of new early-stage investments. We rely on a unique dataset of an entire historic portfolio financed by early-stage focused VCFs. Our findings provide support that both success and failure experience enhance organizational forecasting, and that accumulation of success experience reduces forecast accuracy while the accumulation of failure does not. We also found that bigger VCFs are more effective in integrating lessons from experience into future predictions unless the number of successes that they experienced is very high.

Results and Implications:
Our contribution to the literature is the following. First, by reconciling research on organizational learning with research on forecasts and decision-making literature our study advances our knowledge of the extent to which experience shapes forecast accuracy. We show that learning from success and failure experience is conditional on the level of each experience and on the size of the organization. Second, our paper contributes to forecasting literature by extending analysis beyond laboratory experiments into the context of strategic forecasting. Finally, we contribute to entrepreneurship literature by extending our understanding of the VCFs’ forecasting ability and learning from experience.

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